



FROM THE DESK OF . . .PATRICK M. WEBER

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## MEMORANDUM

**To: Revenue and Transportation Interim Committee**  
**Date: March 3, 2016**  
**Subject: Tax Increment Districts**

Tax Increment Financing Districts are used to revitalize blighted areas and as an economic development tool.

Mr. Nordtvedt states "by their own decisions to form TIF districts which take property tax levies made by other independent taxing jurisdictions and redirect those revenues to their TIF districts' usages; this resulting in higher property taxes on other Montanans who neither live in nor own property in the city, and cannot vote for or against the city commissioners who create the TIF district takings."

This statement is misleading in that when a Tax Increment District (TIFD) is created the base taxable value is used for future tax years including growth outside the TIFD. Therefore, this does not automatically raise taxes or divert taxes to other property owners. Other taxing entities can float their mills each year based on State law and that would affect all tax payers within that jurisdiction.

The revenue received in the TIFD is derived from the increase of taxes above the base taxable value. The State, Schools, Cities and County's do not receive any of these taxes for operations as they are used in the TIFD.

The City of Billings has three TIFDs. All projects/contracts are approved by the Billings City Council. Following are some examples of what TIFD revenue is used for:

In the North 27<sup>th</sup> TIFD, the City recently built a new parking garage using Tax Increment Revenue Bonds. This parking garage was built in conjunction with the Northern Hotel remodel to provide some of the parking for hotel guests. The hotel was also provided a development incentive for public improvements. The hotel had been closed for seven years and it is now a viable business in the heart of downtown Billings. The Northern Hotel would most likely still be vacant if a TIFD did not exist.

In the South TIFD, the King Avenue East Street needed to be widened and water and sanitary sewer lines updated for the Miller Crossing development. The City attempted to sell Tax Increment Revenue Bonds (TIRB) in 2008 but that is when the economy took the nose dive. The City was able to sell Special Improvement District bonds to cover

the cost for the project. Sam's and Cabela are both built in the Miller Crossing development. The SID bonds were retired with TIRB that the City sold which is how the project was going to be paid for in 2008. One citizen didn't agree with the decision to do that.

The South TIFD has homes that have failing septic systems. Larger sanitary sewer lines were put in when the King Avenue East Street project was done because of the failing systems. The City recently completed a project that put sanitary sewer lines in a neighborhood using TIFD revenue. Without the TIFD there wouldn't be a Sam's or Cabela's and the citizens in the district would have no monetary means to put in sanitary sewer lines.

The East TIFD had issues with flooding during rain storms because of all the water running off the rims. TIRB and City money were used to put in larger storm sewer pipes and install curb/gutters and storm drains in the far Eastern part of the district. Without the ability to sell TIRB this project would not have been possible.

The City of Billings had a Downtown TIFD that expired in 2008. The City, School District, County and State shared in the \$2.6 million of revenue that had been generated due to the TIFD. Billings has a very vibrant down town due to the district.

So that begs the question, without the TIFD, would there have been that much additional tax revenue?

Exhibit A is attached which is a very simplistic flow chart of how the creation of a TIFD has on taxes. The assumptions are that there won't be an increase in base taxable value or inflation impacts to the mills levied. The district expires in 25 years and the taxing jurisdictions get the taxable value from the district.



**Exhibit A**  
**Example of Creation of a Tax Increment Financing District**

Tax Year xxxx1  
 Taxable Value \$1,000,000  
 Taxes Levied \$50,000  
 Number of Mills 500

Tax Year xxxx2  
 Taxable Value \$1,000,000  
 Taxes Levied \$50,000  
 Base Taxable Value =  
 \$1,000,000  
 Number of Mills 500

Tax Year xxxx3  
 Taxable Value \$1,000,000  
 Taxes Levied \$50,000  
 Base Taxable Value =  
 \$1,000,000  
 Number of Mills 500

Tax Year xxxx4  
 Taxable Value \$1,000,000  
 Taxes Levied \$50,000  
 Base Taxable Value =  
 \$1,000,000  
 Number of Mills 500

Tax Year xxx26  
 Taxable Value \$1,000,000  
 Taxes Levied \$50,000  
 Base Taxable Value =  
 \$1,000,000  
 Number of Mills 500

Tax Year xxx27  
 Taxable Value \$1,100,000  
 Taxes Levied \$50,000  
 Base Taxable Value =  
 \$1,000,000  
 Number of Mills 455

Tax Year xxxx2  
 TIFD Created  
 Taxable Value \$0  
 Taxes Levied \$0

Tax Year xxxx3  
 TIFD Revenue  
 Taxable Value \$10,000  
 Taxes Levied \$500  
 Number of Mills 500

Tax Year xxxx4  
 TIFD Revenue  
 Taxable Value \$20,000  
 Taxes Levied \$1,000  
 Number of Mills 500

Tax Year xxx26  
 TIFD Revenue  
 Taxable Value \$100,000  
 Taxes Levied \$10,000  
 Number of Mills 500

Tax Year xxx27  
 TIFD Revenue  
 Taxable Value \$0  
 Taxes Levied \$0  
 Number of Mills 0